

Agri Commodities Insights

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Agricultural Commodities

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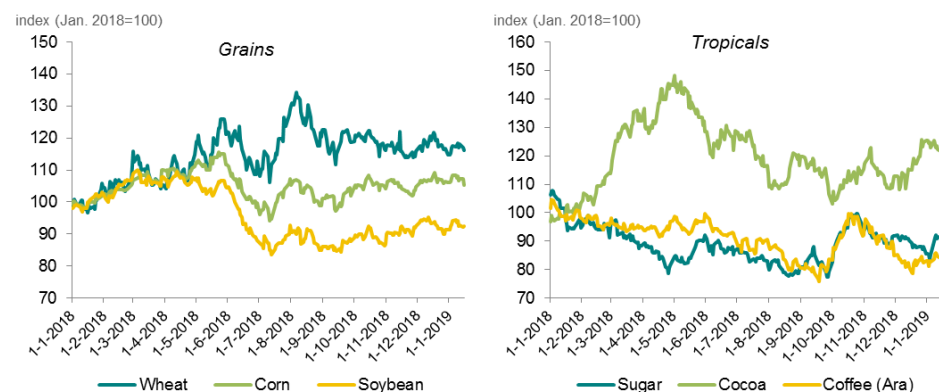
	Price	% price Δ since 1 Jan.
14-9-2018		
Wheat	518,00	1%
(CBT-Composite TRC2, US\$C/Bu)		
Corn	382,25	0%
(CBT-Composite TRC2, US\$C/Bu)		
Soybean	908,00	1%
(CBT-Composite TRC2, US\$C/Bu)		
Sugar	13,30	10%
(CSCE-Sugar #11 TRC2, US\$C/lb)		
Cocoa	2,355	-4%
(CSCE-Cocoa TRC2, US\$C/Mt)		
Coffee (1)	105,55	1%
(CSCE-Arabica 'C' TRC2, US\$C/lb)		
Coffee (2)	1539,00	1%
(LIFFE-Robusta TRC2, US\$C/Mt)		

	FX rate	Forecast
16-1-2019		
EUR/USD	1,14	1,25
USD/BRL	3,73	3,40
USD/CNY	6,75	6,70
EUR/GBP	0,89	0,88
GBP/USD	1,29	1,42

Seeds for higher agricultural prices have been sown

- Prices are heavily influenced by currency trends and US-China trade negotiations
- Prices of wheat and corn are set to rise due to shortages in 2019
- The price of soybeans will come under pressure in 2019 due to oversupply
- The price of sugar will be stable in 2019 on the back of the recovery of the Brazilian real together with good availability
- Cocoa and coffee prices will rise in 2019 due to supply issues

Figure 1: Trend in spot price agricultural commodities since 1 January 2018



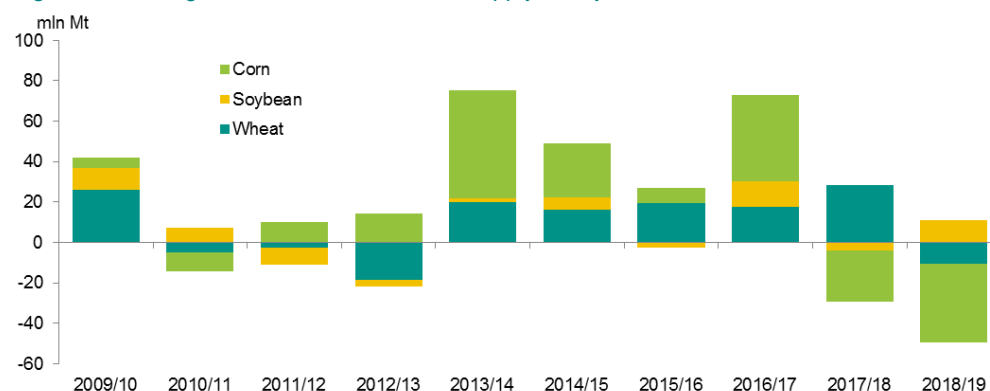
Source: Thomson Reuters Datastream

The results of the trade negotiations between the US and China keep participants busy in many commodity markets. China's promise to purchase more agricultural raw materials, energy and industrial products from the US was a first positive signal. But optimism and sentiment are highly volatile. Trend in US exports of corn and soybeans to China is an important indicator for gauging the agricultural raw materials markets. The mood on the soybean market improved greatly in the wake of the Chinese gesture of goodwill during the US-China trade negotiations, with Chinese importers placing more orders for soybeans from the US. As a result, the price of soybeans has risen since the start of 2019. The prices of all other agricultural raw materials except for cocoa have also shown an increase since the start of 2019. The price of cocoa has fallen by 4 percent so far this year because of weather-related issues in West Africa where favourable weather conditions led to a much better harvest, putting pressure on prices. The strongest advance was seen in the price of sugar. The higher oil price, concerns about weather conditions in Brazil and India, and a stronger Brazilian real have resulted in an increase in the price of sugar by 10 percent since 1 January. Brazil accounts for a large share in the production of many raw materials, such as soybeans, sugar and coffee. That is why the effect of the trend in the Brazilian real on the prices of these raw materials is high. Because of the stronger real since January 1, raw materials have become less valuable for Brazilian traders and that gives traders an incentive to sell lower volumes in international markets in anticipation of higher prices. The price of Arabica and Robusta coffee increased both by 1%.

Grains: Oversupply in soybean market, shortages in corn and wheat in 2019

The trade war influences the grains market. It has a particular effect on the soybean and corn markets. China accounts for a large share in the consumption of these raw materials and depends heavily on the international market (including the US). The Chinese promise to buy more agricultural raw materials from the US looks like a first positive sign, but the evidence for an increase in these purchases is still lacking. This is partly due to the fact that more recent figures continue to be unavailable due to the US government shutdown. Be that as it may, it is clear that the outcome of the trade negotiations will determine the mood in the grains market in the coming period.

Figure 2: Shortage in corn and wheat, oversupply in soybeans market



Source: IGC

The volatility in the price of **soybeans** is relatively low. At this stage, price trends depend on the outcome of the trade negotiations between the US and China. As soon as we find out more about the outcome of the trade negotiations, price volatility will increase sharply. But the fundamental trends are also increasingly affecting the price of soybeans. The supply of soybeans in particular will be decisive this year. The production of soybeans will remain at a good level this season, especially in Brazil. Brazil is enjoying a so-called 'bumper crop', which means that the harvest will be exceptionally high. The US is also set to harvest a good crop of soybeans and exported volumes are significantly lower due to the trade war. The price of soybeans in the US has risen recently on positive indications about the US-China trade negotiations. The combination of a higher US price and the bumper crop in Brazil ensures that trade flows will change. Mexico is a major buyer of soybeans from the US. If the price of soybeans in the US continues to rise and the price in Brazil and premiums for direct delivery fall further (due to good availability), Mexico will start looking at Brazil as its preferred trading partner. All-in-all, global availability of soybeans remains robust and inventories will increase strongly in 2019. The largest exporters of soybeans continue to be the US (34% share of total exports) and Brazil (33% share). These two markets will continue to dominate international trade. But Argentina is a good third (15% share) and the export potential of Argentina remains solid in 2019.

*ABN AMRO expects **pressure on prices for soybeans in 2019**. In the short term, the price may rise as soon as the US-China trade negotiations show signs of a positive outcome. The long-term picture, however, is different. Global supply will increase by 8% according to the International Grains Council (IGC), mainly thanks to the exceptionally good harvest in Brazil. Demand will increase by 3.5% this season, with consumption for animal feed increasing especially strongly. On balance, this will result in an oversupply of 3.1% of total consumption. However, the demand for especially soy meal from the animal*

feed industry is under pressure due to African swine fever in China. With a further spread of this infectious disease, the demand for soybeans will decrease. That said, the long-term perspective for the demand (also after 2019) for soybeans remains favourable. The animal feed industry will continue to purchase soybeans in particular because of the expected further increase in livestock worldwide.

The price of **corn** has so far risen by 1% this year, partly due to optimism about an increase in demand for corn. The price is still relatively low and expectations about the demand for corn – both from the food and the animal feed industries – remain robust. The demand from the animal feed industry will grow sharply in 2019, especially in China, Ukraine and the US. The growth of industrial consumption is also expected to continue. And finally, demand from the ethanol industry will remain robust, despite continued pressure on margins for producers of ethanol. US exports of ethanol increased by as much as 30% year-on-year until October 2018. Demand for imported corn in Europe, Mexico and parts of Asia will remain high in 2019 and the International Grains Council (IGC) expects a new record in the total volume of imported corn. The US accounts for a share of 35% in total corn exports, followed by Brazil with a 20% share. However, the strongest growth in corn exports is expected in Ukraine. Although this country is still a relatively small player in the international trade – with an export share of 3% – the number of shipments of corn over the past decade has tripled. Expectations are that export growth from Ukraine will increase further because of the structural annual surplus and the strong expansion of the infrastructure in ports.

*The International Grains Council (IGC) expects global corn production to increase by 2.5% from 2017/2018 to 2018/2019, while total demand will increase by 3.7%. On balance, the corn market will be faced with a deficit of 3.1% of total consumption. This means that stocks will be down, reaching their lowest level in five years. This will have a price-inflating effect in 2019 and ABN AMRO expects a **higher corn price in 2019**.*

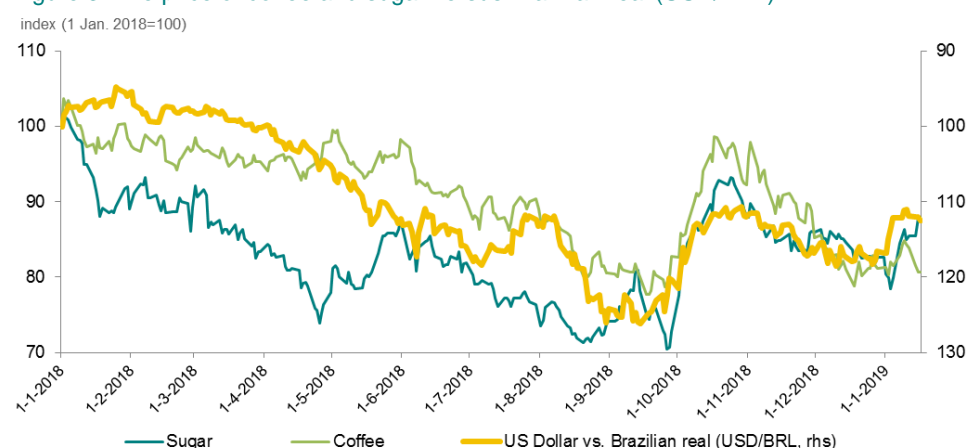
The price of **wheat** increased in the first few weeks of this year, mainly because demand remained strong. After five years of oversupply, the balance in the wheat market will lead to a shortage in the current season. Total wheat acreage and yields are decreasing, and wheat production is decreasing as a result. In Europe, India and Russia, the production of wheat will fall year-on-year in the 2018/2019 season, while production in China and the US will show a slightly increase. Russia is a big factor of influence in the global wheat market. The trends in export volumes from this country can give the world wheat prices their direction. As soon as Russia raises their export volumes, competitiveness of US wheat decreases. Demand for wheat for food is increasing globally (especially in Asia), while the demand for wheat for animal feed is falling. On balance, the total consumption of wheat will remain stable in this season. The market for wheat is influenced by the US-China trade negotiations. China still applies an import tariff of 25% to wheat from the US. Sentiment in the wheat market will improve strongly as soon as this barrier is removed.

*ABN AMRO expects the US dollar to weaken to EUR/USD 1.25 from the current level (17 January 2019: EUR/USD 1.14) at the end of the fourth quarter of 2019. This will improve the competitiveness of US wheat. In this scenario – combined with the decline in global output with unchanged demand – the **price of wheat will rise further in 2019**.*

Tropicals: Increase in cocoa and coffee prices this year, sugar prices stable

The results of the trade negotiations between the US and China have relatively little effect on the prices of coffee, sugar and cocoa. Developments in currencies, such as the Brazilian real, the US dollar and the pound Sterling, are much more relevant. The longer-term trends in the prices of sugar and coffee are correlated. Brazil accounts for a large share in the production of both these tropical agricultural commodities. As a result, the trend in the Brazilian real has a strong bearing on the prices. Cocoa is mainly produced in West Africa, particularly in Ivory Coast and Ghana.

Figure 3: The price of coffee and sugar versus Brazilian real (USD/BRL)



Source: Thomson Reuters Datastream

Brazil is the largest producer of **coffee** in the world, especially of Arabica coffee. Robusta coffee is mainly harvested in Vietnam. Brazil accounts for approximately 35% of the total production of coffee (both Arabica and Robusta). This means that volatility in the Brazilian real affects the coffee price. The real has increased by about 4% (reference date: 17 January) against the US dollar so far this year, while the price of Arabica and Robusta coffee have increased by 1% this year. The stronger real makes coffee less valuable and that gives traders in Brazil an incentive to sell lower volumes in international markets in anticipation of higher prices. This leads to lower volumes of coffee on external markets, causing an upward effect on the price. Most consumers of coffee live in the EU, the US and Brazil. Combined, these countries have a share of 60% in the total consumption of coffee, with the EU accounting for 30%. Expectations are that coffee consumption will continue to grow this year, particularly in Asia and North America. The growth rate of demand in the EU is below the long-term average.

*For 2019, ABN AMRO foresees a stronger real against the dollar, mainly due to economic policy in the US and a more favourable investment climate for emerging markets. Our forecast for the end of 2019 for the USD/BRL rate is 3.40. This has an upward price effect. The increase in the global output of coffee will, however, dampen this effect. But, as the demand for coffee continues to grow, ABN AMRO expects the **price of coffee to rise further in 2019**. That said, the pace of the increase will be relatively low.*

Similar to being correlated to the price of coffee, the Brazilian real also has a strong correlation to the price of **sugar**. The price of sugar dropped by 19% in 2018 as a result of oversupply, but the price started to recover early in 2019. To date, the price has risen by as much as 10%. This is not only attributable to the stronger Brazilian real, but also thanks to negative supply outlook for the sugar sector in 2019. Brazilian sugar production may

disappoint in 2019. This has two causes. The first is that the weather conditions for sugar cane are less favourable, as a result of which agricultural yields come under pressure. In addition, it is more lucrative to produce ethanol than it is to produce sugar, despite the price increase in 2019 so far. As a result, large quantities of harvested sugar cane and sugar beet end up in the ethanol industry rather than in the sugar industry. Partly because of this, Brazil is no longer the largest sugar-producing country in the world. That role has been taken over by India. The Indian government, for its part, supports the sugar sector heavily in order to keep farmers and the industry out of financial difficulties at the current low price levels. With these measures, the supply of sugar on international markets will increase in the coming period and that will bring price pressure.

*We expect the **price of sugar to remain stable for this year**. In Brazil, output is declining, but Indian output is increasing. On balance, the availability of sugar remains globally sufficient, while the demand for sugar continues to grow. That will lead to some price pressure. The expected recovery of the Brazilian real, on the other hand, will have an upward effect on the sugar price.*

The price of **cocoa** increased by 29% in 2018, the main reason being poor weather conditions in Ivory Coast and Ghana. Supply disappointed as a result, while the demand for cocoa remained stable. And still, the weather conditions – with relatively little rain in Ivory Coast – are not looking good for the harvest. An additional problem is that farmers have few financial resources to process the cocoa beans in an orderly fashion. Since the bankruptcy of a major exporter in Ivory Coast, the willingness to finance the sector – both farmers and exporters – has declined. As a result, the quality of the cocoa beans has fallen, as have exports. Moreover, there is a considerable chance that the El Niño effect will affect the cocoa market in the upcoming harvest season. This may also come at the expense of the available amount of cocoa. Developments in the cocoa-processing industry, which processes beans into cocoa mass, powder and butter, paint a good picture of the total demand for cocoa. Cocoa grindings are an especially good indication of trends in demand. The number of cocoa grindings continued to increase in 2018 in both Europe and Asia.

*ABN AMRO expects the **price of cocoa to rise further in 2019**. The available quantity of cocoa will be subject to pressure this year, especially in Ivory Coast. The demand for cocoa will continue to grow in 2019 and the number of cocoa grindings paints a robust picture of the total demand for cocoa going forward.*

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